

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------|--|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Village of Laurium | County Houghton |
| Fiscal Year End 02/28/2006 | Opinion Date 07/27/2006 | Date Audit Report Submitted to State 08/11/2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☐ ☒ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|---|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | | <input checked="" type="checkbox"/> | | |
| Other (Describe) | | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA | | Telephone Number (906) 337-2727 | | |
| Street Address 116 Fifth Street | | City Calumet | State MI | Zip 49913 |
| Authorizing CPA Signature <i>Jackie A. Aalto</i> | | Printed Name Jackie A. Aalto | | License Number 1101022394 |

VILLAGE OF LAURIUM, MICHIGAN
Houghton County

FINANCIAL REPORT

Year Ended February 28, 2006

VILLAGE OF LAURIUM, MICHIGAN
FINANCIAL REPORT
Year Ended February 28, 2006

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INDEPENDENT AUDITOR'S REPORT

The Village Council
Village of Laurium, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Laurium, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Laurium, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

The procedures used to collect cash receipts from sales and admissions at fund raising events and the lack of evidential matter with respect to those cash receipts, do not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements.

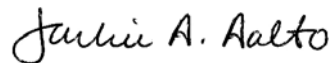
In my opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had I been able to examine sufficient evidence regarding cash receipts described in paragraph three above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Laurium, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 27, 2006, on my consideration of the Village of Laurium, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 11 and 35 through 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Laurium, Michigan's basic financial statements. The accompanying other supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jackie A. Aalto, CPA

Calumet, Michigan
July 27, 2006

VILLAGE OF LAURIUM, MICHIGAN

Management's Discussion and Analysis

The management of the Village of Laurium, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements. Management provides three main topics for discussion and analysis. They are Financial Highlights, Overview of the Financial Statements, and Government-Wide Financial Analysis.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$2,552,296 (shown as net assets). Governmental Funds represented \$1,834,701 of this total, while business-type activities accounted for \$717,595 of this total.
- The Village purchased a new Fire Department pumper at a cost of \$229,169. The Village also completed a \$103,850 water system improvement on the North End.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, highways and streets, sanitation, economic development and culture and recreation. The business-type activities of the Village include recreation, sanitation and water operations.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eleven individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Public Ordinance #114 Fund and the Fire/Police Vehicle Purchase Fund, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 14 - 16 of this report.

Proprietary funds. There are two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its Multi-Recreation, Sanitation and Water Funds operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village has no internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Multi-Recreation, Sanitation and Water Funds, all of which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 17 - 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Village has no fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 33 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 35 - 40 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 42 and 43 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceed liabilities by \$2,552,296 at the close of the most recent fiscal year.

A large portion of the Village's net assets (51%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Laurium, Michigan's Net Assets (in thousands of dollars)

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | <u>Total</u> | |
|---|--------------------------------|-------------------|---------------------------------|-----------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Current and other assets | \$ 1,326.0 | \$ 1,330.5 | \$ 500.7 | \$ 301.1 | \$ 1,826.7 | \$ 1,631.6 |
| Capital assets | <u>975.6</u> | <u>730.3</u> | <u>249.0</u> | <u>424.5</u> | <u>1,224.6</u> | <u>1,154.8</u> |
| Total assets | <u>2,301.6</u> | <u>2,060.8</u> | <u>749.7</u> | <u>725.6</u> | <u>3,051.3</u> | <u>2,786.4</u> |
| Long-term liabilities outstanding | 404.3 | 266.6 | | | 404.3 | 266.6 |
| Other liabilities | <u>62.6</u> | <u>51.9</u> | <u>32.1</u> | <u>25.2</u> | <u>94.7</u> | <u>77.1</u> |
| Total liabilities | <u>466.9</u> | <u>318.5</u> | <u>32.1</u> | <u>25.2</u> | <u>499.0</u> | <u>343.7</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 791.4 | 692.3 | 500.7 | 424.5 | 1,292.1 | 1,116.8 |
| Restricted | 745.2 | 774.7 | | | 745.2 | 774.7 |
| Unrestricted | <u>298.1</u> | <u>275.3</u> | <u>216.9</u> | <u>275.9</u> | <u>515.0</u> | <u>551.2</u> |
| Total net assets | <u>\$ 1,834.7</u> | <u>\$ 1,742.3</u> | <u>\$ 717.6</u> | <u>\$ 700.4</u> | <u>\$ 2,552.3</u> | <u>\$ 2,442.7</u> |

An additional portion of the Village's net assets (29%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$514,960) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

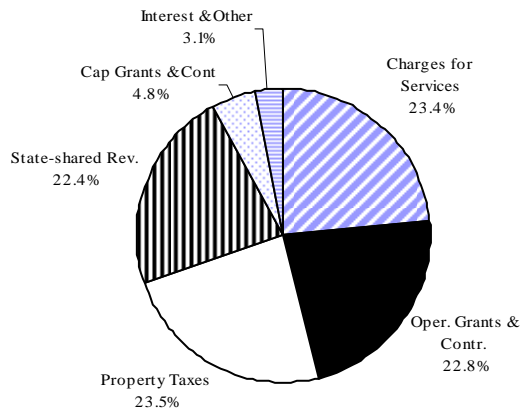
The Village's net assets increased by \$109,597 during the current fiscal year. Key elements of this increase are as follows:

Village of Laurium, Michigan's Changes in Net Assets
(in thousands of dollars)

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | <u>Total</u> | |
|---|--------------------------------|-------------------|---------------------------------|-----------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 314.8 | \$ 296.0 | \$ 179.3 | \$ 177.7 | \$ 494.1 | \$ 473.7 |
| Operating grants and contributions | 306.4 | 328.1 | 2.6 | 2.6 | 309.0 | 330.7 |
| Capital grants and contributions | 65.1 | | | | 65.1 | |
| General revenues: | | | | | | |
| Property taxes | 316.2 | 304.7 | 42.3 | 41.4 | 358.5 | 346.1 |
| State-shared revenues | 300.9 | 307.1 | | | 300.9 | 307.1 |
| Interest | 31.0 | 11.4 | 7.3 | 2.4 | 38.3 | 13.8 |
| Other | <u>8.8</u> | <u>20.2</u> | <u>8.2</u> | <u>8.1</u> | <u>17.0</u> | <u>28.3</u> |
| Total revenues | <u>1,343.2</u> | <u>1,267.5</u> | <u>239.7</u> | <u>232.2</u> | <u>1,582.9</u> | <u>1,499.7</u> |
| Expenses: | | | | | | |
| General government | 198.1 | 91.3 | | | 198.1 | 91.3 |
| Public safety | 380.5 | 241.6 | | | 380.5 | 241.6 |
| Highways & street | 432.2 | 465.0 | | | 432.2 | 465.0 |
| Public works | 202.8 | 348.0 | | | 202.8 | 348.0 |
| Parks & recreation | 8.3 | 7.4 | | | 8.3 | 7.4 |
| Interest on long-term debt | 19.4 | 10.9 | | | 19.4 | 10.9 |
| Multi-recreation | | | 57.9 | 52.8 | 57.9 | 52.8 |
| Sanitation | | | 155.5 | 149.1 | 155.5 | 149.1 |
| Water | | | <u>18.6</u> | <u>18.0</u> | <u>18.6</u> | <u>18.0</u> |
| Total expenses | <u>1,241.3</u> | <u>1,164.2</u> | <u>232.0</u> | <u>219.9</u> | <u>1,473.3</u> | <u>1,384.1</u> |
| Increase in net assets before transfers | 101.9 | 103.3 | 7.7 | 12.3 | 109.6 | 115.6 |
| Transfers | <u>(9.5)</u> | <u>(8.7)</u> | <u>9.5</u> | <u>8.7</u> | | |
| Increase in net assets | 92.4 | 94.6 | 17.2 | 21.0 | 109.6 | 115.6 |
| Net assets – Beginning | <u>1,742.3</u> | <u>1,647.7</u> | <u>700.4</u> | <u>679.4</u> | <u>2,442.7</u> | <u>2,327.1</u> |
| Net assets – Ending | <u>\$ 1,834.7</u> | <u>\$ 1,742.3</u> | <u>\$ 717.6</u> | <u>\$ 700.4</u> | <u>\$ 2,552.3</u> | <u>\$ 2,442.7</u> |

Governmental Activities. The following two charts highlight the Village's governmental activities by revenue and expenses. The data referenced is found on page 13.

Revenues - Governmental Activities

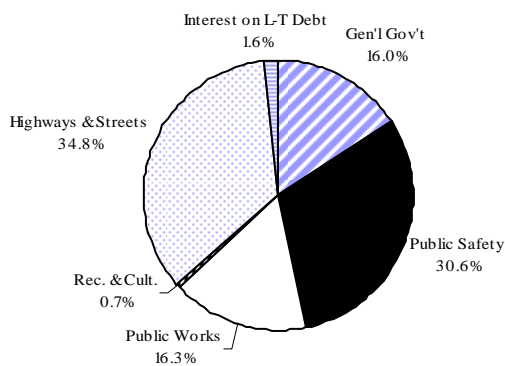


Property taxes are a major source of revenue. The Village's operating millage in 2006 was 19.3886, which includes 1.0000 mills for extra snow removal and 1.0000 mills for fire debt. These are extra voted mills. The Village's charter allows the Village to levy up to 12.5 mills for general operations, 5.0 mills for streets, and 3.0 for garbage. Due to State of Michigan statutes, the Village is at its maximum tax levy, and is unable to increase the mills without the approval of the voters.

A significant portion of the revenue for all governmental activities of the Village comes from Operating Grants & Contributions. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In 2006, the amount of state shared revenue received by the Village once again trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

Expenses - Governmental Activities



The Village's governmental activities are dominated by Highways & Streets. This is due to heavy snow removal activities. The Public Works category includes maintenance support activities for snow removal operations. The Public Safety portion includes police and fire departments operations and the General Government percentage represents town hall activities.

Business-type activities. Business type-activities increased the Village's net assets by \$17,177. The Multi-Recreation Fund accounts for ice arena, Daniell Park concert series, baseball, and other activities where a fee is charged or could be charged to offset recreation program expenses. The Sanitation Fund accounts for garbage pickup, spring and fall cleanup, brush, furniture, metal and Christmas tree disposal. The Village of Laurium is noted for its high level of garbage services. The Water Fund accounts for water main and fire hydrant operations. To date, the Village has completed three major water projects and is currently planning for the next major upgrade by engaging in a flow test/system modeling project.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,224,490. Approximately 38% of this total amount (\$463,972) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service and for a variety of other purposes.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$280,897, while total fund balance was \$289,730. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 33% of total General Fund expenditures, while total fund balance represents 34% of that same amount.

The fund balance of the Village's General Fund decreased by \$24,750 during the current fiscal year.

General Fund Budgetary Highlights

During the year there was a \$135,087 increase in appropriations between the original and final amended budget. The increase was mainly due to an increase in transfers to other funds.

Capital Asset and Debt Administration

The Village of Laurium's investment in capital assets for its governmental activities as of February 28, 2006 amounts to \$975,555 (net of accumulated depreciation). This investments in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities and roads.

Major capital asset events during the current fiscal year included the following:

- Purchased a new fire department pumper for \$229,169
- Purchased one used dump truck for \$28,097
- Purchased two used pickup trucks for \$11,821
- Preconstruction engineering for Isle Royale Street reconstruction project \$33,561

Long-term debt for the Village includes 2001 MI Transportation Fund bonds and Rural Development loan for the Police Vehicle/Fire Truck purchase, with balances outstanding at February 28, 2006 of \$194,000 and \$184,176, respectively.

Contacting the Village of Laurium Management

This financial report is intended to provide our taxpayers, creditors, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions regarding this report or need additional financial information regarding the money entrusted to the Village, as always, please feel free to contact us at the Village of Laurium, P.O. Box 627, Laurium, MI 49913-0627 or contact, Edward M. Vertin, the Chief Financial Officer at (906) 337-1600.

VILLAGE OF LAURIUM, MICHIGAN**Statement of Net Assets****February 28, 2006**

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash | \$ 1,061,298 | \$ 209,447 | \$ 1,270,745 |
| Receivables, net | 248,004 | 33,285 | 281,289 |
| Internal balances | (2,297) | 2,297 | |
| Inventories | 6,425 | 3,942 | 10,367 |
| Prepays | 8,833 | | 8,833 |
| Deferred charges | 3,733 | | 3,733 |
| Capital assets not being depreciated | 80,861 | 5,500 | 86,361 |
| Capital assets, net of accumulated depreciation | <u>894,694</u> | <u>495,197</u> | <u>1,389,891</u> |
| Total Assets | <u>2,301,551</u> | <u>749,668</u> | <u>3,051,219</u> |
| Liabilities | | | |
| Accounts payable & other current liabilities | 59,739 | 15,643 | 75,382 |
| Accrued interest payable | 2,785 | 2,513 | 5,298 |
| Unearned revenue | | 13,917 | 13,917 |
| Noncurrent liabilities: | | | |
| Due within one year | 161,870 | | 161,870 |
| Due in more than one year | <u>242,456</u> | | <u>242,456</u> |
| Total Liabilities | <u>466,850</u> | <u>32,073</u> | <u>498,923</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 791,379 | 500,697 | 1,292,076 |
| Restricted for: | | | |
| Highways & streets | 411,607 | | 411,607 |
| Loans & contingencies | 333,179 | | 333,179 |
| Debt service | 474 | | 474 |
| Unrestricted | <u>298,062</u> | <u>216,898</u> | <u>514,960</u> |
| Total Net Assets | <u>\$ 1,834,701</u> | <u>\$ 717,595</u> | <u>\$ 2,552,296</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Activities

Year Ended February 28, 2006

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------|--------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General government | \$ 198,157 | \$ 9,431 | \$ 4,939 | \$ | \$ (183,787) | \$ | \$ (183,787) |
| Public safety | 380,469 | | | 65,130 | (315,339) | | (315,339) |
| Highways & streets | 432,216 | 236,577 | 301,500 | | 105,861 | | 105,861 |
| Public works | 202,899 | 68,829 | | | (134,070) | | (134,070) |
| Parks & recreation | 8,287 | | | | (8,287) | | (8,287) |
| Interest on long-term debt | <u>19,351</u> | | | | <u>(19,351)</u> | | <u>(19,351)</u> |
| Total Governmental Activities | <u>1,241,379</u> | <u>314,837</u> | <u>306,439</u> | <u>65,130</u> | <u>(554,973)</u> | | <u>(554,973)</u> |
| Business-type Activities | | | | | | | |
| Multi-Recreation | 57,864 | 34,778 | 2,595 | | | (20,491) | (20,491) |
| Sanitation | 155,474 | 99,087 | | | | (56,387) | (56,387) |
| Water | <u>18,646</u> | <u>45,434</u> | | | | <u>26,788</u> | <u>26,788</u> |
| Total Business-type Activities | <u>231,984</u> | <u>179,299</u> | <u>2,595</u> | | | <u>(50,090)</u> | <u>(50,090)</u> |
| Total Primary Government | <u>\$1,473,363</u> | <u>\$ 494,136</u> | <u>\$ 309,034</u> | <u>\$ 65,130</u> | <u>(554,973)</u> | <u>(50,090)</u> | <u>(605,063)</u> |
| General Revenues | | | | | | | |
| Property taxes | | | | | 316,243 | 42,260 | 358,503 |
| State-shared revenues | | | | | 300,867 | | 300,867 |
| Unrestricted investment earnings | | | | | 30,973 | 7,292 | 38,265 |
| Franchise fees | | | | | 8,811 | | 8,811 |
| Other | | | | | | 8,214 | 8,214 |
| Transfers | | | | | <u>(9,501)</u> | <u>9,501</u> | |
| Total General Revenues and Transfers | | | | | <u>647,393</u> | <u>67,267</u> | <u>714,660</u> |
| Change in Net Assets | | | | | 92,420 | 17,177 | 109,597 |
| Net Assets – Beginning | | | | | <u>1,742,281</u> | <u>700,418</u> | <u>2,442,699</u> |
| Net Assets – Ending | | | | | <u>\$ 1,834,701</u> | <u>\$ 717,595</u> | <u>\$ 2,552,296</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

**Balance Sheet
Governmental Funds**

February 28, 2006

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Municipal Street</u> | <u>Public Ordinance #114</u> | <u>Fire/Police Vehicle Purchase</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|-------------------|-------------------------|-------------------------|-----------------------------|--------------------------------------|---|--|---------------------|
| Assets | | | | | | | | |
| Cash | \$ 250,211 | \$ 31,588 | \$ 740 | \$ 282,642 | \$ 312,593 | \$ | \$ 183,524 | \$ 1,061,298 |
| Receivables, net: | | | | | | | | |
| Current tax levy | 21,844 | | | 10,797 | | | 2,061 | 34,702 |
| Delinquent taxes | 2,113 | | | 1,032 | | | 189 | 3,334 |
| Accounts | 19,695 | 262 | | | | | | 19,957 |
| Due from other funds | 25,590 | | 35,147 | 10,568 | | | 24 | 71,329 |
| Intergovernmental receivables | 57,849 | 75,420 | 56,742 | | | | | 190,011 |
| Inventories | | | | 6,425 | | | | 6,425 |
| Prepays | 8,833 | | | | | | | 8,833 |
| Advance to other fund | | | | | 20,586 | | | 20,586 |
| Total Assets | <u>\$ 386,135</u> | <u>\$ 107,270</u> | <u>\$ 92,629</u> | <u>\$ 311,464</u> | <u>\$ 333,179</u> | <u>\$</u> | <u>\$ 185,798</u> | <u>\$ 1,416,475</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 23,000 | \$ 1,244 | \$ | \$ | \$ | \$ | \$ | \$ 24,244 |
| Accrued liabilities | 24,132 | 6,196 | 5,167 | | | | | 35,495 |
| Due to other funds | 4,731 | 61,005 | 7,890 | | | | | 73,626 |
| Deferred revenue – taxes | 23,956 | | | 11,829 | | | 2,249 | 38,034 |
| Advance from other fund | 20,586 | | | | | | | 20,586 |
| Total Liabilities | <u>96,405</u> | <u>68,445</u> | <u>13,057</u> | <u>11,829</u> | | | <u>2,249</u> | <u>191,985</u> |
| Fund Balances | | | | | | | | |
| Reserved for: | | | | | | | | |
| Prepaid expenses | 8,833 | | | | | | | 8,833 |
| Highways & streets | | 38,825 | 79,572 | 293,210 | | | | 411,607 |
| Inventories | | | | 6,425 | | | | 6,425 |
| Loans & contingencies | | | | | 333,179 | | | 333,179 |
| Debt service | | | | | | | 474 | 474 |
| Unreserved: | | | | | | | | |
| General Fund | 280,897 | | | | | | | 280,897 |
| Special Revenue Funds | | | | | | | 183,075 | 183,075 |
| Total Fund Balances | <u>289,730</u> | <u>38,825</u> | <u>79,572</u> | <u>299,635</u> | <u>333,179</u> | | <u>183,549</u> | <u>1,224,490</u> |
| Total Liabilities and Fund Balances | <u>\$ 386,135</u> | <u>\$ 107,270</u> | <u>\$ 92,629</u> | <u>\$ 311,464</u> | <u>\$ 333,179</u> | <u>\$</u> | <u>\$ 185,798</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 975,555

Some of the Village's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds. 38,034

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds

| | | |
|-----------------------------------|--------------|-----------|
| Bonds and loan payable | \$ (378,176) | |
| Deferred amount on issuance costs | 3,733 | |
| Accrued interest on bonds | (2,785) | |
| Compensated absences | (26,150) | (403,378) |

Net assets of governmental activities \$ 1,834,701

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Year Ended February 28, 2006

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Municipal Street</u> | <u>Public Ordinance #114</u> | <u>Fire/Police Vehicle Purchase</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|-------------------|-------------------------|-------------------------|-----------------------------|--------------------------------------|---|--|------------------|
| Revenues | | | | | | | | |
| Taxes | \$ 186,108 | \$ | \$ | \$ 109,035 | \$ | \$ | \$ 16,597 | \$ 311,740 |
| Licenses & permits | 413 | | | | | | | 413 |
| Intergovernmental revenues: | | | | | | | | |
| Federal | 1,323 | | | | | 65,130 | | 66,453 |
| State | 304,483 | 201,168 | 100,332 | | | | | 605,983 |
| Charges for services | 46,957 | | | | | | | 46,957 |
| Fines & forfeits | 3,381 | | | | | | | 3,381 |
| Interest & rents | 268,193 | 4,287 | 1,036 | 10,373 | 10,345 | | 4,461 | 298,695 |
| Other revenues | <u>117,016</u> | | | | | | <u>3,009</u> | <u>120,025</u> |
| Total Revenues | <u>927,874</u> | <u>205,455</u> | <u>101,368</u> | <u>119,408</u> | <u>10,345</u> | <u>65,130</u> | <u>24,067</u> | <u>1,453,647</u> |
| Expenditures | | | | | | | | |
| Current | | | | | | | | |
| General government | 77,949 | 9,520 | 6,570 | 1,305 | 990 | | 1,280 | 97,614 |
| Public safety | 231,182 | | | | | | 3,143 | 234,325 |
| Highways & streets | | 203,834 | 184,617 | | | | | 388,451 |
| Public works | 187,683 | | | | | | | 187,683 |
| Parks & recreation | 6,546 | | | | | | | 6,546 |
| Other | 348,464 | | | | | | | 348,464 |
| Debt service | | | | | | | | |
| Principal | | | | | | | 28,694 | 28,694 |
| Interest | 936 | | | | | | 15,630 | 16,566 |
| Capital outlay | <u>2,257</u> | <u>33,561</u> | | | | <u>229,169</u> | <u>49,203</u> | <u>314,190</u> |
| Total Expenditures | <u>855,017</u> | <u>246,915</u> | <u>191,187</u> | <u>1,305</u> | <u>990</u> | <u>229,169</u> | <u>97,950</u> | <u>1,622,533</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>72,857</u> | <u>(41,460)</u> | <u>(89,819)</u> | <u>118,103</u> | <u>9,355</u> | <u>(164,039)</u> | <u>(73,883)</u> | <u>(168,886)</u> |
| Other Financing Sources (Uses) | | | | | | | | |
| Note proceeds | | | | | | 161,870 | | 161,870 |
| Transfers in | | | 155,147 | | | 473 | 127,944 | 283,564 |
| Transfers out | <u>(97,607)</u> | <u>(41,153)</u> | <u>(17,094)</u> | <u>(120,000)</u> | | | <u>(17,211)</u> | <u>(293,065)</u> |
| Total Other Financing Sources (Uses) | <u>(97,607)</u> | <u>(41,153)</u> | <u>138,053</u> | <u>(120,000)</u> | | <u>162,343</u> | <u>110,733</u> | <u>152,369</u> |
| Net Change in Fund Balances | (24,750) | (82,613) | 48,234 | (1,897) | 9,355 | (1,696) | 36,850 | (16,517) |
| Fund Balances - Beginning | <u>314,480</u> | <u>121,438</u> | <u>31,338</u> | <u>301,532</u> | <u>323,824</u> | <u>1,696</u> | <u>146,699</u> | |
| Fund Balances - Ending | <u>\$ 289,730</u> | <u>\$ 38,825</u> | <u>\$ 79,572</u> | <u>\$ 299,635</u> | <u>\$ 333,179</u> | <u>\$</u> | <u>\$ 183,549</u> | |

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

249,671

The net effect of miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.

(4,711)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued
Principal repayments

(161,870)
28,694

(133,176)

VILLAGE OF LAURIUM, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds

Year Ended February 28, 2006

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Municipal Street</u> | <u>Public Ordinance #114</u> | <u>Fire/Police Vehicle Purchase</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|----------------|-------------------------|-------------------------|-----------------------------|--------------------------------------|---|--|------------------|
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. | | | | | | | | |
| Compensated absences | | | | (4,298) | | | | |
| Accrued interest | | | | (2,785) | | | | |
| Amortization of issuance costs | | | | <u>(267)</u> | | | | (7,350) |
| Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | | | | | | | | <u>4,503</u> |
| Change in Net Assets of Governmental Activities | | | | | | | | <u>\$ 92,420</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Net Assets Proprietary Funds

February 28, 2006

| | Enterprise Funds | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Multi-Recreation | Sanitation | Water | Total |
| Assets | | | | |
| Current Assets: | | | | |
| Cash | \$ 45,747 | \$ 138,201 | \$ 25,499 | \$ 209,447 |
| Receivables, net: | | | | |
| Current tax levy | | 5,241 | | 5,241 |
| Delinquent taxes | | 506 | | 506 |
| Accounts | 6,320 | 16,395 | 4,823 | 27,538 |
| Due from other funds | | 2,856 | 1,023 | 3,879 |
| Inventories | <u>1,092</u> | <u>2,850</u> | | <u>3,942</u> |
| Total Current Assets | <u>53,159</u> | <u>166,049</u> | <u>31,345</u> | <u>250,553</u> |
| Noncurrent Assets: | | | | |
| Capital assets not being depreciated | 5,500 | | | 5,500 |
| Capital assets, net of accumulated depreciation | <u>152,548</u> | <u>76,169</u> | <u>266,480</u> | <u>495,197</u> |
| Total Noncurrent Assets | <u>158,048</u> | <u>76,169</u> | <u>266,480</u> | <u>500,697</u> |
| Total Assets | <u>211,207</u> | <u>242,218</u> | <u>297,825</u> | <u>751,250</u> |
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 8,483 | 6,137 | 1,023 | 15,643 |
| Accrued liabilities | 1,253 | 1,260 | | 2,513 |
| Due to other funds | 180 | 1,402 | | 1,582 |
| Deferred revenue: | | | | |
| Taxes | | 5,748 | | 5,748 |
| Other | | <u>8,169</u> | | <u>8,169</u> |
| Total Current Liabilities | <u>9,916</u> | <u>22,716</u> | <u>1,023</u> | <u>33,655</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 158,048 | 76,169 | 266,480 | 500,697 |
| Unrestricted | <u>43,243</u> | <u>143,333</u> | <u>30,322</u> | <u>216,898</u> |
| Total Net Assets | <u>\$ 201,291</u> | <u>\$ 219,502</u> | <u>\$ 296,802</u> | <u>\$ 717,595</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds

Year Ended February 28, 2006

| | Enterprise Funds | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Multi-Recreation | Sanitation | Water | Total |
| Operating Revenues | | | | |
| Property taxes | \$ | \$ 42,260 | \$ | \$ 42,260 |
| Charges for services | 34,778 | 99,087 | 45,434 | 179,299 |
| Other operating revenue | <u>7,242</u> | <u>972</u> | | <u>8,214</u> |
| Total Operating Revenues | <u>42,020</u> | <u>142,319</u> | <u>45,434</u> | <u>229,773</u> |
| Operating Expenses | | | | |
| Cost of sales | 4,890 | | 12,299 | 17,189 |
| Wages & fringe benefits | 9,326 | 43,188 | | 52,514 |
| Administration | | 7,271 | 995 | 8,266 |
| Sanitation disposal | 180 | 61,072 | | 61,252 |
| Utilities | 21,232 | | | 21,232 |
| Supplies & maintenance | 4,766 | 25,261 | | 30,027 |
| Miscellaneous | 546 | 3,313 | | 3,859 |
| Depreciation | <u>12,269</u> | <u>15,369</u> | <u>5,352</u> | <u>32,990</u> |
| Total Operating Expenses | <u>53,209</u> | <u>155,474</u> | <u>18,646</u> | <u>227,329</u> |
| Operating Income (Loss) | <u>(11,189)</u> | <u>(13,155)</u> | <u>26,788</u> | <u>2,444</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Special activities (net): | | | | |
| Daniell Park activities | 23 | | | 23 |
| George Gipp Rec. Area activities | (3,456) | | | (3,456) |
| Sports activities | <u>(887)</u> | | | <u>(887)</u> |
| Total special activities | (4,320) | | | (4,320) |
| Contributions | 2,595 | | | 2,595 |
| Interest income | 1,180 | 4,619 | 1,493 | 7,292 |
| Other expense | <u>(335)</u> | | | <u>(335)</u> |
| Total Nonoperating Revenues (Expenses) | <u>(880)</u> | <u>4,619</u> | <u>1,493</u> | <u>5,232</u> |
| Income (Loss) Before Transfers | (12,069) | (8,536) | 28,281 | 7,676 |
| Transfers in | <u>9,501</u> | | | <u>9,501</u> |
| Change in Net Assets | (2,568) | (8,536) | 28,281 | 17,177 |
| Net Assets – Beginning | <u>203,859</u> | <u>228,038</u> | <u>268,521</u> | <u>700,418</u> |
| Net Assets – Ending | <u>\$ 201,291</u> | <u>\$ 219,502</u> | <u>\$ 296,802</u> | <u>\$ 717,595</u> |

The notes to the financial statements are an integral part of this financial statement.

VILLAGE OF LAURIUM, MICHIGAN

Statement of Cash Flows Proprietary Funds

Year Ended February 28, 2006

| | Enterprise Funds | | | |
|---|------------------|-------------------|------------------|-------------------|
| | Multi-Recreation | Sanitation | Water | Total |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 46,469 | \$ 142,984 | \$ 45,199 | \$ 234,652 |
| Payments to suppliers | (25,729) | (102,210) | (13,294) | (141,233) |
| Payments to employees | (9,195) | (43,050) | | (52,245) |
| Net cash provided (used) by operating activities | <u>11,545</u> | <u>(2,276)</u> | <u>31,905</u> | <u>41,174</u> |
| Cash Flows from Noncapital Financing Activities | | | | |
| Special activities | (4,320) | | | (4,320) |
| Contribution | 2,595 | | | 2,595 |
| Other expense | (335) | | | (335) |
| Transfers from other funds | <u>9,501</u> | | | <u>9,501</u> |
| Net cash provided by noncapital financing activities | <u>7,441</u> | | | <u>7,441</u> |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Acquisition and construction of capital assets | <u>(7,085)</u> | | <u>(103,850)</u> | <u>(110,935)</u> |
| Cash Flows from Investing Activities | | | | |
| Interest | <u>1,180</u> | <u>4,619</u> | <u>1,493</u> | <u>7,292</u> |
| Net increase (decrease) in cash | 13,081 | 2,343 | (70,452) | (55,028) |
| Cash – Beginning | <u>32,666</u> | <u>135,858</u> | <u>95,951</u> | <u>264,475</u> |
| Cash – Ending | <u>\$ 45,747</u> | <u>\$ 138,201</u> | <u>\$ 25,499</u> | <u>\$ 209,447</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ (11,189) | \$ (13,155) | \$ 26,788 | \$ 2,444 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 14,023 | 15,369 | 5,352 | 34,744 |
| (Increase) decrease in receivables | 4,449 | 193 | (235) | 4,407 |
| (Increase) decrease in due from other funds | | (2,436) | | (2,436) |
| (Increase) decrease in inventories | (148) | (2,779) | | (2,927) |
| Increase (decrease) in accounts payable | 4,222 | 1,918 | | 6,140 |
| Increase (decrease) in accrued liabilities | 131 | 138 | | 269 |
| Increase (decrease) in due to other funds | 57 | (1,996) | | (1,939) |
| Increase (decrease) in deferred revenue | | <u>472</u> | | <u>472</u> |
| Net cash provided (used) by operating activities | <u>\$ 11,545</u> | <u>\$ (2,276)</u> | <u>\$ 31,905</u> | <u>\$ 41,174</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Village of Laurium, Michigan was incorporated in 1895. The Village is governed by an elected seven member council consisting of a president and six trustees. The Village provides services to its residents in many areas including law enforcement, fire protection, street maintenance, sanitation, recreation and community enrichment.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Village has no component units.

Jointly Governed Organization – The Village, in conjunction with three other governmental entities, created the North Houghton County Water & Sewage Authority (the "Authority") to provide wastewater collection, transmission and treatment. The Authority's board is comprised of seven members, two of which are from the Village. The Authority's board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority. It is expected that the revenues generated from the Authority system users will be adequate to operate the sewage system and pay back the related construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

See Note 9 for information pertaining to related organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

The *Local Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The *Municipal Street Fund* accounts for property taxes levied on Village residents that are restricted for use on major or local streets.

The *Public Ordinance #114 Fund* accounts for assets that are restricted by the Village. The assets in this fund can be used for the Sewer System emergencies or loaned to other funds for equipment purchases. This fund accounts for the activity of the former Sewer Fund.

The *Fire/Police Vehicle Purchase Fund* accounts for grant and loan proceeds used to purchase fire and police vehicles.

The Village reports the following major proprietary funds:

The *Multi-Recreation Fund* accounts for the recreational activities of the Village. The main activities in this fund are the George Gipp Ice Arena and Complex and the Daniell Park concerts.

The *Sanitation Fund* accounts for the activities of the Village's garbage removal operations.

The *Water Fund* accounts for the activity of the leasing of the Village's water mains.

Additionally, the Village reports the following nonmajor governmental funds: Public Improvement, Fire Truck, Volunteer Firemen, Debt Service 2000 and Debt Service Fire/Police.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's sanitation function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds relate to charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents. The Village did not have any short-term investments at February 28, 2006.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

It is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

The 2005 taxable valuation of the Village totaled \$16,850,646, on which ad valorem taxes levied consisted of 10.6029 mills for operating purposes, 2.5446 mills for garbage removal, 4.2411 mills for street maintenance, 1.0000 mills for snow removal and 1.0000 mill for the purchase of fire apparatus. This resulted in \$178,916 for operating, \$42,938 for garbage removal, \$71,565 for street maintenance, \$16,874 for snow removal and \$16,874 for fire apparatus. These amounts are recognized in the respective General, Proprietary and Special Revenue Fund financial statements as taxes receivable – current or as tax revenue.

Inventories and Prepaid Items – Inventories are valued at lower of cost or market, using the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the Village values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since March 1, 2004 are recorded at cost.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|--------------------|----------------|
| Buildings | 40 to 60 years |
| Site Improvements | 20 years |
| Water Lines | 35 to 80 years |
| Infrastructure | 15 to 30 years |
| Vehicles | 5 to 25 years |
| Office Equipment | 8 to 10 years |
| Computer Equipment | 5 years |
| Office Furnishings | 15 years |

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Compensated Absences – It is the Village’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The estimated current portion of the liability for vacation leave attributable to the Village’s governmental funds is not significant and therefore a current liability is not recognized. There is no limit on the number of days of vacation leave that an employee can accumulate.

Long-Term Obligations – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are deferred and amortized over the life of the related debt. When applicable, bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the activity level. Encumbrance accounting is not employed in the governmental funds.

B. Excess of Expenditures over Appropriations

For the year ended February 28, 2006, expenditures exceeded appropriations in the Water Fund by \$146.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated five banks for the deposit of Village funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories (the Village has no investments):

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| Cash and cash equivalents | <u>\$ 1,061,298</u> | <u>\$ 209,447</u> | <u>\$ 1,270,745</u> |

The breakdown between deposits is as follows:

| | |
|---|---------------------|
| Bank deposits (checking and savings accounts) | \$ 1,269,763 |
| Petty cash and cash on hand | <u>982</u> |
| Total | <u>\$ 1,270,745</u> |

The bank balance of the Village's deposits is \$1,293,505, of which \$100,000 is covered by federal depository insurance and \$1,193,505 is collateralized with a Federal Home Loan Bank bond held by the pledging financial institution.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note 4 – Capital Assets

Capital asset activity for the year ended February 28, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------------|-----------------------------|---------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 47,300 | \$ | \$ | \$ 47,300 |
| Construction in progress | <u> </u> | <u>33,561</u> | <u> </u> | <u>33,561</u> |
| Total capital assets not being depreciated | <u>47,300</u> | <u>33,561</u> | <u> </u> | <u>80,861</u> |
| Capital assets being depreciated: | | | | |
| Buildings & site improvements | 193,000 | | | 193,000 |
| Machinery & equipment | 902,668 | 239,358 | (29,334) | 1,112,692 |
| Vehicles | <u>79,189</u> | <u>41,271</u> | <u>(10,700)</u> | <u>109,760</u> |
| Total capital assets being depreciated | <u>1,174,857</u> | <u>280,629</u> | <u>(40,034)</u> | <u>1,415,452</u> |
| Less accumulated depreciation: | | | | |
| Building & site improvements | 67,540 | 3,060 | | 70,600 |
| Machinery & equipment | 412,556 | 42,487 | (29,334) | 425,709 |
| Vehicles | <u>11,766</u> | <u>18,972</u> | <u>(6,289)</u> | <u>24,449</u> |
| Total accumulated depreciation | <u>491,862</u> | <u>64,519</u> | <u>(35,623)</u> | <u>520,758</u> |
| Total capital assets being depreciated, net | <u>682,995</u> | <u>216,110</u> | <u>(4,411)</u> | <u>894,694</u> |
| Governmental activities capital assets, net | <u>\$ 730,295</u> | <u>\$ 249,671</u> | <u>\$ (4,411)</u> | <u>\$ 975,555</u> |
| Business-Type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | <u>\$ 5,500</u> | <u>\$</u> | <u>\$</u> | <u>\$ 5,500</u> |
| Capital assets being depreciated: | | | | |
| Buildings & site improvements | 396,906 | 7,085 | | 403,991 |
| Water system | 297,592 | 103,850 | | 401,442 |
| Machinery & equipment | <u>207,848</u> | <u> </u> | <u> </u> | <u>207,848</u> |
| Total capital assets being depreciated | <u>902,346</u> | <u>110,935</u> | <u> </u> | <u>1,013,281</u> |

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Less accumulated depreciation: | | | | |
| Building & site improvements | 252,620 | 11,749 | | 264,369 |
| Water system | 129,610 | 5,352 | | 134,962 |
| Machinery & equipment | <u>101,110</u> | <u>17,643</u> | | <u>118,753</u> |
| Total accumulated depreciation | <u>483,340</u> | <u>34,744</u> | | <u>518,084</u> |
| Total capital assets being depreciated, net | <u>419,006</u> | <u>76,191</u> | | <u>495,197</u> |
| Business-type activities capital assets, net | <u>\$ 424,506</u> | <u>\$ 76,191</u> | <u>\$</u> | <u>\$ 500,697</u> |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|--------------------|---------------|
| General government | \$ 3,174 |
| Public safety | 34,715 |
| Public works | <u>26,630</u> |

Total depreciation expense-governmental activities \$ 64,519

Business-type Activities:

| | |
|------------------|--------------|
| Multi-Recreation | \$ 14,023 |
| Sanitation | 15,369 |
| Water | <u>5,352</u> |

Total depreciation expenses-business-type activities \$ 34,744

Construction Commitment

The Village has an active construction project as of February 28, 2006. The project includes street reconstruction and new storm sewers. At year end the Village's commitments with contractors are as follows:

| <u>Project</u> | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|--|----------------------|---------------------------------|
| Street reconstruction and storm sewers | <u>\$ 33,561</u> | <u>\$ 525,000</u> |

The commitment for the street reconstruction and storm sewers is being financed by approximately 82% from grants from the Michigan Department of Transportation with the balance coming from Village funds.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note 5 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of February 28, 2006 is as follows:

Due To/From Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|------------------|
| General | Major Street | \$ 19,881 |
| | Local Street | 4,127 |
| | Multi-Recreation | 180 |
| | Sanitation | 1,402 |
| Local Street | Major Street | 35,147 |
| Municipal Street | General | 828 |
| | Major Street | 5,977 |
| | Local Street | 3,763 |
| Fire Truck | General | 24 |
| Sanitation | General | 2,856 |
| Water | General | <u>1,023</u> |
| Total | | <u>\$ 75,208</u> |

Advances From/To Other Funds

| | | |
|-----------------------|---------|------------------|
| Public Ordinance #114 | General | <u>\$ 20,586</u> |
|-----------------------|---------|------------------|

Interfund Transfers

| | <u>Transfers (Out)</u> | | | | | |
|------------------------------|------------------------|---------------------|---------------------|-------------------------|-------------------------------|-------------------|
| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Municipal Street</u> | <u>Non-Major Governmental</u> | <u>Total</u> |
| Transfers In: | | | | | | |
| Governmental Funds | | | | | | |
| Local Street | \$ | \$ 35,147 | \$ | \$ 120,000 | \$ | \$ 155,147 |
| Fire/Police Vehicle Purchase | | | | | 473 | 473 |
| Non-Major Governmental Funds | <u>88,796</u> | <u>6,006</u> | <u>17,094</u> | <u> </u> | <u>16,048</u> | <u>127,944</u> |
| Subtotal governmental funds | 88,796 | 41,153 | 17,094 | 120,000 | 16,521 | 283,564 |
| Enterprise Funds | | | | | | |
| Multi-Recreation | <u>8,811</u> | <u> </u> | <u> </u> | <u> </u> | <u>690</u> | <u>9,501</u> |
| Total | <u>\$ 97,607</u> | <u>\$ 41,153</u> | <u>\$ 17,094</u> | <u>\$ 120,000</u> | <u>\$ 17,211</u> | <u>\$ 293,065</u> |

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note 6 – Long-Term Debt

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

Bond and contractual activity can be summarized as follows:

| | <u>Interest Rate</u> | <u>Principal Matures</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------------|--------------------------|------------------------------|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| Governmental Activities | | | | | | | |
| General Obligations Bonds | | | | | | | |
| \$242,000 2001 Michigan | | | | | | | |
| Transportation Fund Bonds | 4.75% | 4-1-2016 | \$ 207,000 | \$ | \$ (13,000) | \$ 194,000 | \$ 14,000 |
| Loan – Fire/Police vehicles | 4.38% | 12-1-2019 | <u>38,000</u> | <u>161,870</u> | <u>(15,694)</u> | <u>184,176</u> | <u>10,000</u> |
| Subtotal bond & loan obligations | | | 245,000 | 161,870 | (28,694) | 378,176 | 24,000 |
| Other Long-term Obligations | | | | | | | |
| Compensated absences | | | <u>21,852</u> | <u>4,298</u> | | <u>26,150</u> | |
| Total Governmental Activities | | | <u>\$ 266,852</u> | <u>\$ 166,168</u> | <u>\$ (28,694)</u> | <u>\$ 404,326</u> | <u>\$ 24,000</u> |

Annual debt service requirements to maturity for the above obligations are as follows:

| <u>Year End February 28,</u> | <u>Governmental Activities</u> | |
|------------------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 24,000 | \$ 16,949 |
| 2008 | 24,500 | 15,846 |
| 2009 | 26,000 | 14,698 |
| 2010 | 27,500 | 13,480 |
| 2011 | 29,000 | 12,192 |
| 2012-2016 | 165,500 | 39,491 |
| 2017-2020 | <u>81,676</u> | <u>6,795</u> |
| Total | <u>\$ 378,176</u> | <u>\$ 119,451</u> |

During the current fiscal year the Village paid \$16,566 in interest expense. The entire amount was expensed.

Note 7 – Lease Agreement

The water line lease and operating agreement between the Village of Laurium, Michigan and Michigan-American Water Company is dated October 1, 1983. Annual rental is based on 12 ½% of the net revenue generated by Michigan-American Water Company from Village residents.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

This rental income is recorded in the Water Fund and amounts to \$33,158 for the year ended February 28, 2006.

Note 8 – Risk Management

The Village is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation), as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Related Organizations

The Laurium Housing Commission is a related organization which is excluded from the financial reporting entity because the Village's accountability does not extend beyond making appointments. The Laurium Housing Commission provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development. The Village has no influence over the management, budget or policies of the Commission. The Commission reports independently and a copy of its audited financial statement is available from them.

The Village has established, as a legal separate organization, the Village of Laurium Hospital Finance Authority (the "Authority") to allow the Keweenaw Memorial Medical Center to obtain financing at a lower rate than it could without going through the Authority. The Authority is governed by a three person board who are appointed by the Village. The Village's accountability does not extend beyond this representation and making these appointments. The board adopts rules, policies and procedures deemed necessary for the conduct of its business.

Note 10 – Employee Retirement and Benefit Systems

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. All permanent employees of the Village are eligible to participate in the plan upon working at least 10 full work days in a given month. As of December 31, 2005, the most recent report available, the Village had 12 active covered employees, 2 vested former members and 14 retirees and beneficiaries. The annual covered payroll at that date totaled \$362,827 and the Village's total payroll for all employees was \$450,580. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 North Canal Street, Lansing, Michigan 48917-9755.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's competitive bargaining units and requires no contribution from the employees and 18.59% and 18.90% of gross wages for general, and police/fire employees, respectively.

Annual Pension Costs – For the year ended February 28, 2006 the Village's annual pension cost of \$56,088 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal actuarial method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases per year; and (iii) 3 to 4% per year cost of living adjustments. Both determined using techniques that smooth the effect of short-term volatility over a ten-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 25 years.

Three year trend information as of December 31 follows:

| | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| Annual Pension Cost | \$ 54,162 | \$ 55,274 | \$ 56,088 |
| Percentage of APC Contributed | 100% | 100% | 100% |
| Net Pension Obligation | 0 | 0 | 0 |
| Actuarial Value of Assets | 815,433 | 869,290 | 889,347 |
| Actual Accrued Liability | 1,208,328 | 1,485,839 | 1,570,335 |
| Unfunded AAL | 392,895 | 616,549 | 680,988 |
| Funded Ratio | 67% | 59% | 57% |
| Covered Payroll | 358,137 | 312,457 | 362,827 |
| UAAL as a Percentage of Covered Payroll | 110% | 110% | 188% |

Note 11 – Deferred Compensation Plan

The Village offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Village's financial statements.

VILLAGE OF LAURIUM, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note 12 – Commitment and Contingencies

The Village receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Village management, such disallowance, if any, will not be significant to the Village's financial statements.

Required Supplementary Information

VILLAGE OF LAURIUM, MICHIGAN**Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|-------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 314,480 | \$ 314,480 | \$ 314,480 |
| Resources (Inflows): | | | |
| Taxes | 185,400 | 185,200 | 186,108 |
| Licenses & permits | 200 | 420 | 413 |
| Intergovernmental revenue | | | |
| Federal | | | 1,323 |
| State | 311,600 | 311,300 | 304,483 |
| Charges for services | 47,800 | 46,300 | 46,957 |
| Fines & forfeitures | 2,345 | 3,150 | 3,381 |
| Interest & rents | 208,400 | 263,511 | 268,193 |
| Other revenue | <u>71,500</u> | <u>109,751</u> | <u>117,016</u> |
| Amounts Available for Appropriation | <u>1,141,725</u> | <u>1,234,112</u> | <u>1,242,354</u> |
| Charges to Appropriations (Outflows): | | | |
| General government | 83,895 | 85,270 | 79,093 |
| Public safety | 223,148 | 236,223 | 232,295 |
| Public works | 166,000 | 199,250 | 187,683 |
| Parks & recreation | | 6,700 | 6,546 |
| Other | 357,745 | 363,070 | 348,464 |
| Debt service - interest | | 950 | 936 |
| Transfers out | <u>19,652</u> | <u>94,064</u> | <u>97,607</u> |
| Total Charges to Appropriations | <u>850,440</u> | <u>985,527</u> | <u>952,624</u> |
| Ending Budgetary Fund Balance | <u>\$ 291,285</u> | <u>\$ 248,585</u> | <u>\$ 289,730</u> |

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Major Street Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|-----------------|------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 121,438 | \$ 121,438 | \$ 121,438 |
| Resources (Inflows): | | | |
| Intergovernmental revenue - State | 187,200 | 181,000 | 201,168 |
| Interest | 2,200 | 4,400 | 4,287 |
| Transfers in | <u>40,000</u> | | |
| Amounts Available for Appropriation | <u>350,838</u> | <u>306,838</u> | <u>326,893</u> |
| Charges to Appropriations (Outflows): | | | |
| General government | 9,600 | 9,600 | 9,520 |
| Highways & streets | 209,250 | 209,800 | 203,834 |
| Capital outlay | | 38,600 | 33,561 |
| Transfers out | <u>42,650</u> | <u>42,850</u> | <u>41,153</u> |
| Total Charges to Appropriations | <u>261,500</u> | <u>300,850</u> | <u>288,068</u> |
| Ending Budgetary Fund Balance | <u>\$ 89,338</u> | <u>\$ 5,988</u> | <u>\$ 38,825</u> |

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Local Street Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|------------------|------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 31,338 | \$ 31,338 | \$ 31,338 |
| Resources (Inflows): | | | |
| Intergovernmental revenue – State | 88,200 | 99,400 | 100,332 |
| Interest | 1,200 | 1,200 | 1,036 |
| Transfers in | <u>96,800</u> | <u>156,800</u> | <u>155,147</u> |
| Amounts Available for Appropriation | <u>217,538</u> | <u>288,738</u> | <u>287,853</u> |
| Charges to Appropriations (Outflows): | | | |
| General government | 6,700 | 6,700 | 6,570 |
| Highways & streets | 152,400 | 196,775 | 184,617 |
| Transfers out | <u>16,650</u> | <u>17,100</u> | <u>17,094</u> |
| Total Charges to Appropriations | <u>175,750</u> | <u>220,575</u> | <u>208,281</u> |
| Ending Budgetary Bund Balance | <u>\$ 41,788</u> | <u>\$ 68,163</u> | <u>\$ 79,572</u> |

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Municipal Street Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|-------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 301,532 | \$ 301,532 | \$ 301,532 |
| Resources (Inflows): | | | |
| Taxes | 106,400 | 108,500 | 109,035 |
| Interest | <u>6,500</u> | <u>10,000</u> | <u>10,373</u> |
| Amounts Available for Appropriation | <u>414,432</u> | <u>420,032</u> | <u>420,940</u> |
| Charges to Appropriations (Outflows): | | | |
| General government | 1,300 | 1,350 | 1,305 |
| Transfers out | <u>100,000</u> | <u>120,000</u> | <u>120,000</u> |
| Total Charges to Appropriations | <u>101,300</u> | <u>121,350</u> | <u>121,305</u> |
| Ending Budgetary Fund Balance | <u>\$ 313,132</u> | <u>\$ 298,682</u> | <u>\$ 299,635</u> |

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Public Ordinance #114 Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|-------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 323,824 | \$ 323,824 | \$ 323,824 |
| Resources (Inflows): | | | |
| Interest | <u>6,900</u> | <u>10,200</u> | <u>10,345</u> |
| Amounts Available for Appropriation | 330,724 | 334,024 | 334,169 |
| Charges to Appropriations (Outflows): | | | |
| General government | <u>(1,000)</u> | <u>(1,050)</u> | <u>(990)</u> |
| Ending Budgetary Fund Balance | <u>\$ 329,724</u> | <u>\$ 332,974</u> | <u>\$ 333,179</u> |

VILLAGE OF LAURIUM, MICHIGAN

**Budgetary Comparison Schedule
Fire/Police Vehicle Purchase Fund
Year Ended February 28, 2006**

| | <u>Budgeted Amounts</u> | | |
|---------------------------------------|-------------------------|---------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> |
| Beginning Budgetary Fund Balance | \$ 1,696 | \$ 1,696 | \$ 1,696 |
| Resources (Inflows): | | | |
| Intergovernmental revenue – Federal | 65,130 | 65,130 | 65,130 |
| Note proceeds | 161,870 | 161,870 | 161,870 |
| Transfers in | <u> </u> | <u>473</u> | <u>473</u> |
| Amounts Available for Appropriation | 228,696 | 229,169 | 229,169 |
| Charges to Appropriations (Outflows): | | | |
| Capital outlay | <u>(228,696)</u> | <u>(229,169)</u> | <u>229,169</u> |
| Ending Budgetary Fund Balance | <u>\$ </u> | <u>\$ </u> | <u>\$ </u> |

Other Supplementary Information

VILLAGE OF LAURIUM, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds February 28, 2006

| | Special Revenue Funds | | | Total Special Revenue Fund | Debt Service Funds | | Total Debt Service Funds | Total Nonmajor Governmental Funds |
|--|-----------------------|------------------|----------------------|-------------------------------------|--------------------|--------------|-----------------------------------|--|
| | Public Improvement | Fire Truck | Volunteer Firemen | | Debt 2000 | Fire/Police | | |
| Assets | | | | | | | | |
| Cash | \$ 124,877 | \$ 50,300 | \$ 7,873 | \$ 183,050 | \$ 455 | \$ 19 | \$ 474 | \$ 183,524 |
| Receivables (net): | | | | | | | | |
| Current tax levy | | 2,061 | | 2,061 | | | | 2,061 |
| Delinquent taxes | | 189 | | 189 | | | | 189 |
| Due from other funds | | 24 | | 24 | | | | 24 |
| Total Assets | <u>\$ 124,877</u> | <u>\$ 52,574</u> | <u>\$ 7,873</u> | <u>\$ 185,324</u> | <u>\$ 455</u> | <u>\$ 19</u> | <u>\$ 474</u> | <u>\$ 185,798</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Deferred revenue – taxes | | 2,249 | | 2,249 | | | | 2,249 |
| Total Liabilities | | 2,249 | | 2,249 | | | | 2,249 |
| Fund Balances | | | | | | | | |
| Reserved for debt service | | | | | 455 | 19 | 474 | 474 |
| Unreserved | 124,877 | 50,325 | 7,873 | 183,075 | | | | 183,075 |
| Total Fund Balances | <u>124,877</u> | <u>50,325</u> | <u>7,873</u> | <u>183,075</u> | <u>455</u> | <u>19</u> | <u>474</u> | <u>183,549</u> |
| Total Liabilities and Fund Balances | <u>\$ 124,877</u> | <u>\$ 52,574</u> | <u>\$ 7,873</u> | <u>\$ 185,324</u> | <u>\$ 455</u> | <u>\$ 19</u> | <u>\$ 474</u> | <u>\$ 185,798</u> |

VILLAGE OF LAURIUM, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended February 28, 2006

| | Special Revenue Funds | | | Total Special Revenue Fund | Debt Service Funds | | Total Debt Service Funds | Total Nonmajor Governmental Funds |
|--|-----------------------|------------------|----------------------|-------------------------------------|--------------------|-----------------|-----------------------------------|--|
| | Public Improvement | Fire Truck | Volunteer Firemen | | Debt 2000 | Fire/Police | | |
| Revenues | | | | | | | | |
| Taxes | \$ | \$ 16,597 | \$ | \$ 16,597 | \$ | \$ | \$ | \$ 16,597 |
| Interest | 2,971 | 1,431 | 18 | 4,420 | 23 | 18 | 41 | 4,461 |
| Other revenues | | | 3,009 | 3,009 | | | | 3,009 |
| Total Revenues | <u>2,971</u> | <u>18,028</u> | <u>3,027</u> | <u>24,026</u> | <u>23</u> | <u>18</u> | <u>41</u> | <u>24,067</u> |
| Expenditures | | | | | | | | |
| Current | | | | | | | | |
| General government | 930 | | | 930 | 350 | | 350 | 1,280 |
| Public safety | | 1,605 | 1,538 | 3,143 | | | | 3,143 |
| Debt service | | | | | | | | |
| Principal | | | | | 13,000 | 15,694 | 28,694 | 28,694 |
| Interest | | | | | 9,524 | 6,106 | 15,630 | 15,630 |
| Capital outlay | <u>49,203</u> | | | <u>49,203</u> | | | | <u>49,203</u> |
| Total Expenditures | <u>50,133</u> | <u>1,605</u> | <u>1,538</u> | <u>53,276</u> | <u>22,874</u> | <u>21,800</u> | <u>44,674</u> | <u>97,950</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(47,162)</u> | <u>16,423</u> | <u>1,489</u> | <u>(29,250)</u> | <u>(22,851)</u> | <u>(21,782)</u> | <u>(44,633)</u> | <u>(73,883)</u> |
| Other Financing Sources (Uses) | | | | | | | | |
| Transfers in | 70,000 | 13,043 | | 83,043 | 23,100 | 21,801 | 44,901 | 127,944 |
| Transfers out | | (16,521) | (690) | (17,211) | | | | (17,211) |
| Total Other Financing Sources (Uses) | <u>70,000</u> | <u>(3,478)</u> | <u>(690)</u> | <u>65,832</u> | <u>23,100</u> | <u>21,801</u> | <u>44,901</u> | <u>110,733</u> |
| Net Change in Fund Balances | <u>22,838</u> | <u>12,945</u> | <u>799</u> | <u>36,582</u> | <u>249</u> | <u>19</u> | <u>268</u> | <u>36,850</u> |
| Fund Balances – Beginning | <u>102,039</u> | <u>37,380</u> | <u>7,074</u> | <u>146,493</u> | <u>206</u> | | <u>206</u> | <u>146,699</u> |
| Fund Balances - Ending | <u>\$ 124,877</u> | <u>\$ 50,325</u> | <u>\$ 7,873</u> | <u>\$ 183,075</u> | <u>\$ 455</u> | <u>\$ 19</u> | <u>\$ 474</u> | <u>\$ 183,549</u> |

VILLAGE OF LAURIUM, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Village Council
Village of Laurium, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Laurium, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements and have issued my report thereon dated July 27, 2006. The report on the basic financial statements was qualified because the procedures used to collect cash receipts from sales and admissions at fund raising events, and the lack of evidential matter with respect to those cash receipts, did not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Laurium, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Laurium, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

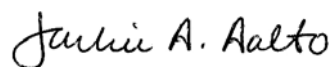
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Laurium, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Village of Laurium, Michigan in a separate letter dated July 27, 2006

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan

July 27, 2006

July 27, 2006

To the Village Council
Village of Laurium, Michigan

In planning and performing my audit of the financial statements of the Village of Laurium, Michigan for the year ended February 28, 2006 I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Laurium, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remain involved in the financial affairs of the Village to provide oversight and independent review functions. This includes:
 - a. The oversight of financial activities at the George Gipp Arena and Daniell Park.
 - b. The adoption of a conflict of interest policy.
 - c. Adopt a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll.
 - d. Require that all of the Village invoices be prepared on prenumbered invoices, in triplicate, with the name of the Village printed on the invoice.

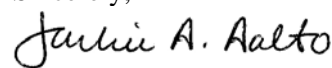
Other Comments and Recommendations

2. P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the 2/28/06 fiscal year, the Village incurred expenditures which were in excess of the amounts appropriated by \$146 in the Water Fund. It is recommended that the Village Council fully comply with all provisions of the Act.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2006 financial statements, and this report does not affect my report on those financial statements dated July 27, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


Jackie A. Aalto, CPA